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TO ALL DIPLOMATIC POSTS

AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: ETRD

SUBJECT: MTN: THE STATE OF THE NEGOTIATIONS, JANUARY 1976

EMBASSIES PASS CONSTITUENT POSTS

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1. BACKGROUND: THE TRADE NEGOTIATIONS COMMITTEE (TNC),

WHICH IS THE MTN'S FORMAL STEERING GROUP, MET FOR THE THIRD TIME IN 1975 ON DECEMBER 9-12 IN GENEVA, ITS PREVIOUS MEETINGS HAVING BEEN IN FEBRUARY AND JULY. AS USUAL, THE TNC'S PURPOSE WAS TO REVIEW PROGRESS TO DATE AND MAP OUT FURTHER DIRECTIONS FOR PRIORITY NEGOTIATING ACTIVITY DURING THE COMING MONTHS. THIS MESSAGE SKETCHES THE PREVAILING CLIMATE SURROUNDING THE NEGOTIATIONS, HIGHLIGHTS THE MAIN ACCOMPLISHMENTS OF THIS TNC MEETING, AND BRIEFLY DISCUSSES THE STATUS OF EACH OF THE PRINCIPAL NEGOTIATING ISSUES. THE INFORMATION IS FOR GENERAL BACKGROUND OF ADDRESSEES AND IS PARTICULARLY AIMED AT THOSE POSTS WHICH DO NOT RECEIVE CONTINUING TRAFFIC ON MTN RELATED ISSUES.

2. THE SETTING: THE DECEMBER TNC OCCURRED AT A TIME WHEN THERE HAD BEEN WIDE-SPREAD FEELING (ESPECIALLY AMONG THE LDCS) THAT THE MTN IS PROCEEDING AT TOO SLOW A PACE, APPEARED HOBbled BY A FUNDAMENTAL DIFFERENCE BETWEEN THE US AND THE EC OVER AGRICULTURE NEGOTIATIONS, AND COULD FALTER OWING TO GROWING PROTECTIONIST PRESSURES.

A. HOW TO HANDLE PUBLIC PRESSURE FOR INCREASED TRADE RESTRICTIONS HAS BEEN A PROMINENT THEME IN RECENT MONTHS. APPEARING IN MANY PUBLIC STATEMENTS OF SENIOR OFFICIALS IN THE INDUSTRIALIZED COUNTRIES, THE SUBJECT HAS BEEN VETTED BILATERALLY WITH THE US AND WITHIN THE CONSULTATIVE PROCESSES OF THE OECD AND THE GATT. WHILE IT IS GENERALLY RECOGNIZED THAT PROTECTIONIST PRESSURES ARE AN INEVITABLE BY-PRODUCT OF CURRENT WORLD-WIDE ECONOMIC UNCERTAINTY, CONCERN WAS EXPRESSED THAT PROTECTIONISM APPEARED TO BE GAINING PARTICULAR STRENGTH IN THE US. MANY CONSIDER THAT GIVEN ITS DETAILED PROVISIONS AUTHORIZING IMPORT RELIEF MEASURES, THE TRADE ACT MIGHT BE USED FOR ADVANCING PROTECTIONIST RATHER THAN TRADE LIBERALIZING PURPOSES. THIS CONCERN RESULTED TO AN IMPORTANT DEGREE FROM THE INTERPRETATION MANY PLACED ON THE FACT THAT A SUBSTANTIAL VOLUME OF US IMPORTS, COVERING SUCH PRODUCTS AS AUTOS, STEEL, SHOES AND CERTAIN PROCESSED AGRICULTURAL PRODUCTS (E.G., CHEESE AND CANNED HAMS) WAS LIMITED OFFICIAL USE

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UNDER INVESTIGATION AS A RESULT OF PETITIONS FOR A VARIETY OF REASONS: ESCAPE CLAUSE (SECTION 201 OF THE TRADE ACT), RELIEF FROM UNREASONABLE AND ILLEGAL FOREIGN TRADE PRACTICES, ANTIDUMPING (SECTION 321) OR COUNTERVAILING DUTY (SECTION 331).

B. WE CONFRONTED THE ISSUE OF PROTECTIONISM BY STRESSING PUBLICLY AND IN VARIOUS FORA THAT THE US

WAS NOT MOVING AWAY FROM ITS TRADITIONAL LIBERAL TRADE POLICIES. THE FACT THAT INVESTIGATIONS RESULTING FROM PRIVATE PETITIONS ARE IN TRAIN RESULTS FROM PRECISE REQUIREMENTS SET FORTH IN THE TRADE ACT WHICH THE ADMINISTRATION NECESSARILY HAS TO CARRY OUT, BUT IN NO SENSE IMPLIES THAT WE ARE ADOPTING A PROTECTIONIST POLICY. WHILE A NUMBER OF IMPORTANT CASES CONTINUE UNDER INVESTIGATION AT THIS WRITING, SEVERAL HAVE BEEN RESOLVED WITHOUT THE ADOPTION OF ANY MAJOR US IMPORT RESTRICTIONS. THIS HAS REASSURED OTHERS THAT WE DO NOT INTEND TO USE THE TRADE ACT AS A MEANS TO ACCOMMODATE UNFOUNDED DOMESTIC US PROTECTIONIST PRESSURES.

C. THE NOVEMBER 15-17 ECONOMIC SUMMIT AT RAMBOUILLET PROVIDED AN OPPORTUNITY TO UNDERScore THE IMPORTANCE OF MOVING FORWARD --AND TO BE SEEN AS MOVING FORWARD-- IN THE TRADE NEGOTIATIONS. THE SUMMIT'S PARTICIPANTS AGREED TO ACCELERATE WORK IN THE MTN DURING 1976, AND TO SET 1977 AS THE TARGET FOR COMPLETING THE NEGOTIATIONS.

WE ALSO USED THE OCCASION TO JOIN IN A STRONG AND UNEQUIVOCAL REAFFIRMATION NOT TO RESORT TO TRADE RESTRICTIONS. AT THE NOVEMBER 18-19 US/EC BILATERAL CONSULTATIONS, WE PROPOSED THAT A PRIORITY GOAL FOR MOVEMENT IN THE MTNS SHOULD BE IN THE TARIFF AREA, LOOKING TOWARD AGREEMENT ON A TARIFF NEGOTIATING PLAN IN MID-1976. THE EC ENDORSED THIS GENERAL APPROACH WHILE WE STATED OUR INTENTION TO TABLE A TARIFF PROPOSAL IN GENEVA IN MARCH.

D. ALTHOUGH INFLUENCED BY THE UNCERTAINTY CREATED BY THE CONTINUING US/EC AGRICULTURALIMPASSE (SEE PARA. 3E BELOW), THE DECEMBER 9-11 TNC ADOPTED THE PRINCIPAL LIMITED OFFICIAL USE

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FEATURES OF OUR PROPOSED WORK PROGRAM. FIRST, THE 1977 TARGET FOR COMPLETION OF THE NEGOTIATIONS AS A WHOLE WAS APPROVED. SECOND, IT WAS AGREED THAT 1976 WOULD BE A PERIOD OF INTENSIVE WORK TOWARD THE FOLLOWING GOALS:

- AGREEMENT ON TROPICAL PRODUCTS,
- AGREEMENT ON MAJOR ELEMENTS OF A TARIFF NEGOTIATING PLAN,
- DEVELOPING AN AGREED APPROACH TO NEGOTIATIONS ON SUBSIDIES AND COUNTERVAILING DUTIES,
- A SUBSTANTIALLY AGREED DRAFTSTANDARDS CODE,

- AN AGREED PROCEDURE FOR LIBERALIZING QUANTITATIVE RESTRICTIONS,
- AN AGREED BASIS FOR NEGOTIATING CUSTOMS MATTERS,
- AGREEMENT ON BASIC CONCEPTS TO BE NEGOTIATED WITH RESPECT TO SAFEGUARDS,
- SUBSTANTIAL AGREEMENT ON THE ROLE AND USE OF THE SECTORS APPROACH, AND
- PROGRESS IN ACHIEVING SPECIAL AND DIFFERENTIAL TREATMENT FOR LDCS IN APPROPRIATE AREAS OF THE NEGOTIATIONS

SEVERAL OTHER US SUGGESTIONS, INCLUDING WORK ON EXPORT RESTRICTIONS, GOVERNMENT PROCUREMENT AND DISPUTE SETTLEMENT, AND A CODE ON ETHICAL STANDARDS DID NOT APPEAR IN THE TNC CHAIRMAN'S SUMMING UP STATEMENT. ON BALANCE, HOWEVER, WE BELIEVE SUBSTANTIAL ACHIEVEMENTS WERE MADE AT THIS TNC.

### 3. STATE-OF-PLAY IN THE VARIOUS NEGOTIATING GROUPS.

#### A. TARIFFS

##### (1) PROGRESS TOWARD AN AGREEMENT ON A TARIFF NEGOTIATING LIMITED OFFICIAL USE

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PLAN HAS BEEN SLOW OWING LARGELY TO DEPRESSED LEVELS OF ECONOMIC ACTIVITY WORLDWIDE AND THE RELUCTANCE OF THE US (AND OTHER PARTICIPANTS SUCH AS AUSTRALIA) TO PROCEED UNTIL DOMESTIC PROCEDURES, INCLUDING HEARINGS AND CONSULTATIONS WITH THE PRIVATE SECTOR, WERE COMPLETED. THE TARIFF GROUP THUS SPENT MOST THE 1975 JOCKEYING OVER THE FOLLOWING ISSUES: (A) BASE DATES/BASE RATES, I.E., WHICH DUTIES WILL APPLY IN TARIFF REDUCTIONS (APPLIED, INCLUDING TEMPORARY, OR STATUTORY) AND AS OF WHAT POINT IN TIME; (B) SPECIAL PROCEDURES FOR LDCS; AND (C) AN INITIAL EXAMINATION OF TEN ILLUSTRATIVE OPTIONS FOR A GENERAL FORMULA FOR TARIFF REDUCTIONS WHICH WERE PUT FORWARD WITHOUT COMMITMENT BY THE US, EC, JAPAN, CANADA AND SWITZERLAND. THESE OPTIONS RANGE FROM THE EC'S PURE HARMONIZATION APPROACH (THE PERCENTAGE REDUCTION IS EQUAL TO THE AD VALOREM HEIGHT OF THE TARIFF) TO THE BASICALLY LINEAR APPROACH EMBODIED IN THE THREE FORMULAE SUGGESTED BY THE US. WHILE THESE SUBMISSIONS WERE INDICATIVE OF THE SUBSTANTIVE DIFFERENCES ON HOW TARIFF REDUCTIONS SHOULD BE NEGOTIATED, THERE IS IMPLICIT AGREEMENT THAT TARIFF REDUCTIONS TO BE MADE BY MAJOR DEVELOPED COUNTRIES WILL BE BASED ON A GENERAL

FORMULA, WITH EACH COUNTRY THEN EXCEPTING CERTAIN ITEMS AND/OR MAKING PARTIAL OFFERS, MUCH AS WAS DONE IN THE KENNEDY ROUND. TARIFF NEGOTIATIONS WITH OTHER COUNTRIES, INCLUDING THE DEVELOPING COUNTRIES, WILL LIKELY BE ON AN ITEM-BY-ITEM BASIS.

(2) IN THE COMING MONTHS CONSIDERABLE NEGOTIATING EFFORT WILL BE REQUIRED TO NARROW THE DIFFERENCES IN THE VARIOUS TARIFF CUTTING APPROACHES. THESE DIFFERENCES STEM TO SOME EXTENT FROM THE DIFFERENCES IN TARIFF STRUCTURE AND TRADING PATTERNS OF THE PRINCIPAL INDUSTRIALIZED COUNTRIES, BUT ARE OBVIOUSLY A PRODUCT OF THE BROADER OBJECTIVES EACH COUNTRY IS SEEKING (OR SEEKING TO AVOID) IN THE MTN GENERALLY, AND SPECIFICALLY WITH RESPECT TO TARIFF REDUCTIONS VIS-A-VIS ITS PRINCIPAL TRADING PARTNERS. THUS THE EC AND THE NORDICS ARE PROMOTING FORMULAE WHICH WOULD REDUCE DUTIES IN THE LOWER RANGE VERY LITTLE, IF AT ALL, WITH HIGHER PERCENTAGE REDUCTIONS IN TARIFFS ABOVE 10, WHEREAS CANADA HAS LIMITED OFFICIAL USE

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SUGGESTED AN APPROACH THAT WOULD ELIMINATE LOWER DUTIES (I.E., IN THE 5 AND BELOW RANGE) BUT LIMIT REDUCTIONS OF HIGHER DUTIES TO SOMEWHERE BETWEEN 50 AND 60. THE

EC, IN FACT, HAS SUGGESTED THE IDEA OF A FLOOR BELOW WHICH ANY DUTY REDUCTIONS WOULD NOT BE REQUIRED, AND HAS PROPOSED A 5 CUTOFF FOR THIS PURPOSE. ADOPTION OF A HARMONIZATION FORMULA WITH A FLOOR WOULD RESULT IN VERY LOW AVERAGE OVERALL TARIFF REDUCTIONS, EVEN WITHOUT EXCEPTIONS. WHILE THE US HAS NOT REACHED A FINAL DECISION ON THE TYPE OF FORMULA WHICH WOULD APPLY TO TARIFF REDUCTIONS, WE ARE NOT FUNDAMENTALLY OPPOSED TO THE CONCEPT OF HARMONIZATION AS LONG AS IT CONTRIBUTES TO OUR GOAL OF ACHIEVING OVERALL TARIFF LIBERALIZATION. THE EC APPROACH DOES NOT DO THIS, WHICH ACCOUNTS FOR OUR PRINCIPAL DIFFICULTY WITH IT.

(3) IF WE MOVE IN THE DIRECTION OF THE PRESIDENT'S STATEMENT AT RAMBOUILLET THAT WE WILL SEEK TO ACHIEVE TARIFF REDUCTIONS AT LEAST AT THE LEVEL OF THE KENNEDY ROUND (ROUGHLY 35 ON A TRADE WEIGHTED BASIS), A FAIRLY LIBERAL FORMULA WOULD BE REQUIRED TO BEGIN WITH, GIVEN THE FACT THAT CERTAIN ITEMS WILL BE MANDATORILY EXCLUDED FROM THE CUTS. AT THE PRESENT TIME, A NUMBER OF STUDIES ARE UNDERWAY WITHIN THE USG, IN WHICH THE VARIOUS FORMULAE ARE BEING TESTED UNDER A VARIETY OF ASSUMPTIONS TO DETERMINE WHICH FORMULA OF FORMULAE MIGHT BEST ACHIEVE CERTAIN OBJECTIVES.

(4) THE UNITED STATES HAS INFORMED OTHER KEY MTN PARTICIPANTS THAT IT WOULD TABLE A FORMULA FOR CONSIDERATION AT THE MEETING OF THE TARIFFS GROUP IN MARCH 1976. IT IS OUR INTENTION THAT SUCH A PROPOSAL WILL START THE PROCESS OF NARROWING THE FORMULA CHOICES TO THE POINT WHERE AGREEMENT ON A FORMULA CAN BE REACHED NO LATER THAN THE FALL OF 1976. THE NEGOTIATIONS COULD MOVE THEN INTO THE PHASE OF TABLING AND DISCUSSION OF EXCEPTIONS IN LATE 1976.

#### B. NON-TARIFF MEASURES

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THE FOUR SUBGROUPS ESTABLISHED UNDER THE NON-TARIFF MEASURES (NTM) GROUP ARE CONSIDERING: (1) SUBSIDIES AND COUNTERVAILING DUTIES; (2) QUANTITATIVE RESTRICTIONS AND IMPORT LICENSING PROCEDURES; (3) STANDARDS, PACKING AND LABELING AND MARKS OF ORIGIN; AND (4) CUSTOMS MATTERS INCLUDING CUSTOMS VALUATION, IMPORT DOCUMENTATION, CONSULAR FORMALITIES AND FEES, CUSTOMS NOMENCLATURE, AND CUSTOMS PROCEDURES. SUBSTANTIAL WORK HAS BEEN DONE IN EACH OF THE SUBGROUPS BUT MUCH MORE REMAINS TO BE DONE BEFORE ANY ISSUE IS WRAPPED UP. A REVIEW OF WORK IN EACH OF THE NTM SUBGROUPS FOLLOWS:

##### (1) SUBSIDIES AND COUNTERVAILING DUTIES:

THE US ATTACHES PARTICULAR IMPORTANCE TO NEGOTIATING IMPROVED RULES ON SUBSIDIES AND HAS SAID THAT IT IS WILLING TO SEEK MODIFICATION OF ITS COUNTERVAILING DUTY LAW IF THIS OBJECTIVE IS ACHIEVED. A NUMBER OF OTHER COUNTRIES, INCLUDING THE EC, CANADA, AND JAPAN, ATTACH IMPORTANCE TO US ACCEPTANCE OF THE GATT REQUIREMENT TO DETERMINE INJURY TO A DOMESTIC INDUSTRY BEFORE IMPOSING A COUNTERVAILING DUTY. IN OCTOBER, THE US TABLED A PROPOSED FRAMEWORK FOR NEGOTIATION OF A CODE ON SUBSIDIES AND COUNTERVAILING DUTIES. IT PROVIDED FOR DEFINING ALL SUBSIDIES IN THREE CATEGORIES -- (I) PROHIBITED SUBSIDIES WHICH WOULD BE COUNTERVAILABLE WITHOUT AN INJURY FINDING; (II) CONDITIONAL SUBSIDIES WHICH WOULD BE COUNTERVAILABLE ONLY IF CERTAIN CONDITIONS SUCH AS INJURY WERE MET; AND (III) PERMITTED SUBSIDIES (INCENTIVES FAVORING EXPORT AND DOMESTIC IN AN EQUAL MANNER) WHICH WOULD NOT BE COUNTERVAILABLE. OTHER COUNTRIES TABLED PROPOSALS BUT GENERALLY EMPHASIZED COUNTERVAILING DUTY PROBLEMS. A SUBGROUP MEETING IN MID-NOVEMBER REVEALED THAT FUNDAMENTAL POSITIONS ON MAJOR ISSUES REMAIN FAR APART, PARTICULARLY ON ALLOWING THE IMPOSITION OF COUNTERVAILING DUTIES AGAINST ANY SUBSIDY IN THE ABSENCE

OF A DETERMINATION OF MATERIAL INJURY, AS IS ENVISAGED  
IN THE US PROPOSAL CONCERNING PROHIBITED SUBSIDIES.  
THE EC CONTINUES TO OPPOSE WORKING ON AGRICULTURAL  
PROBLEMS RELATED TO SUBSIDIES IN THE NTM GROUP.

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(2) QUANTITATIVE RESTRICTIONS AND IMPORT LICENSING  
PROCEDURES:

FACT-FINDING BILATERAL DISCUSSIONS ON QUANTITATIVE  
RESTRICTIONS (QRS) ARE PRESENTLY UNDER WAY IN THE QR  
SUBGROUP. THE RESULTS OF THESE CONSULTATIONS WILL  
BE CONSIDERED IN THE FORMULATION OF ANY PROCEDURES  
FOR BILATERAL AND PLURILATERAL NEGOTIATIONS AND/OR  
FOR DEVELOPING NEW RULES ON QRS. ALMOST ALL PARTICIPANTS,  
INCLUDING THE US, MAINTAIN QUOTAS IN WHICH OTHER  
COUNTRIES HAVE A DIVERSE TRADITION, ALL PARTICIPANTS COULD  
BE SUBJECT TO NEGOTIATION. THUS, ALL PARTICIPANTS COULD  
MAKE CONCESSIONS AND RECEIVE RECIPROCAL BENEFITS IN  
THIS AREA BUT THERE WOULD NOT NECESSARILY BE A BALANCE  
OF CONCESSIONS. CONSULTATIONS HAVE BEEN IMPEDED BY THE  
UNWILLINGNESS OF THE EC, SOME OTHER EUROPEAN COUNTRIES  
AND JAPAN, TO DISCUSS AGRICULTURAL QRS IN THE QR SUBGROUP  
FRAMEWORK. IN THESE CASES, THE US HAS DEFERRED

CONSULTATIONS PENDING RESOLUTION OF THE AGRICULTURE  
IMPASSE. TEXTS HAVE BEEN DEVELOPED, BUT NOT AGREED,  
ON IMPORT LICENSING PROCEDURES; ONE TEXT WOULD REQUIRE  
ELIMINATION OF AUTOMATIC LICENSING SYSTEMS OR ELIMINATION  
OF THEIR TRADE RESTRICTING EFFECTS, AND THE OTHER  
WOULD ESTABLISH GUIDELINES FOR LICENSING TO ADMINISTER  
IMPORT RESTRICTIONS SO AS TO LESSEN THE RESTRICTIVE  
EFFECT OF THE PROCEDURES. THE US IS PRINCIPALLY  
INTERESTED IN SEEKING THE ELIMINATION OF AUTOMATIC  
LICENSING SYSTEMS OF VARIOUS COUNTRIES. AUTOMATIC  
LICENSING COVERS TECHNICAL VISA REQUIREMENTS, SURVEILLANCE  
SYSTEMS, EXCHANGE FORMALITIES AND OTHER LICENSING  
REQUIREMENTS NOT USED TO ADMINISTER IMPORT RESTRICTIONS  
PURSUANT TO, INTER ALIA, ARTICLES XI, XII, XVII, XVIII,  
XIX, XX AND XXI OF THE GATT.

3. STANDARDS:

SUBSTANTIAL AGREEMENT HAS BEEN REACHED ON A DRAFT GATT  
"CODE OF CONDUCT FOR PREVENTING TECHNICAL BARRIERS  
TO TRADE" (STANDARDS). THE CODE IS DESIGNED PRIMARILY  
TO PREVENT PRODUCT STANDARDS, CERTIFICATION AND  
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REGULATIONS REGARDING PACKAGING AND LABELLING FROM BEING USED AS UNJUSTIFIABLE (OR UNREASONABLE) NON-TARIFF BARRIERS TO TRADE. IT WOULD ALSO PROMOTE GREATER HARMONIZATION OF STANDARDS AMONG PARTICIPATING COUNTRIES BY ENCOURAGING ADOPTION OF INTERNATIONAL STANDARDS. ALTHOUGH ALL COUNTRIES - DEVELOPED AND DEVELOPING - STAND TO BENEFIT, SOME DELEGATIONS ARE CONCERNED THAT CERTAIN COUNTRIES WOULD INCUR GREATER OBLIGATIONS UNDER THE CODE THAN OTHERS. OTHER PROBLEMS ARE PRIMARILY OF A TECHNICAL NATURE (E.G., DEFINITIONS TO BE USED IN A CODE). THEY DO NOT APPEAR INSURMOUNTABLE AND MOST DELEGATIONS HAVE DEMONSTRATED A WILLINGNESS TO MOVE AHEAD.

#### 4. CUSTOMS MATTERS:

EMPHASIS IN THIS GENERAL AREA HAS BEEN ON VALUATION PROBLEMS. THE SUBGROUP HAS DISCUSSED: (1) THE ELEMENTS THEY WISH TO HAVE INCLUDED IN ANY NEW SET OF INTERNATIONAL RULES AND (2) DRAFT PRINCIPLES AND INTERPRETATIVE NOTES WHICH ADDRESS PROBLEMS ARISING FROM NONCOMPLIANCE WITH EXISTING GATT PROVISIONS. RECENT DISCUSSIONS HAVE FOCUSED ON THE MAIN ELEMENTS THAT SHOULD BE INCLUDED IN A COMMON INTERNATIONAL SYSTEM. IF SUCH A SYSTEM WERE BASED ON THE BRUSSELS DEFINITION OF VALUE (BDV) (FAVORED BY THE EC), OR THE DRAFT PRINCIPLES AND NOTES (FAVORED BY JAPAN), MAJOR CHANGES

IN CUSTOMS PRACTICES OF A NUMBER OF COUNTRIES INCLUDING THE US, CANADA, AUSTRALIA, AND SOUTH AFRICA WOULD BE REQUIRED. THE US HAS STRESSED THAT ANY CHANGE IN ITS SYSTEM WOULD REQUIRE RECIPROCAL CONCESSIONS. OTHER WORK OF THE SUBGROUP INCLUDES CUSTOMS NOMENCLATURE AND CONSULAR FORMALITIES. THE US IS INTERESTED IN THE LATTER WITH RESPECT TO SOME DEVELOPING COUNTRIES. WE HAVE MANAGED TO STEER DISCUSSIONS AWAY FROM CRITICISM OF THE US VALUATION SYSTEM TOWARD ASPECTS OF VALUATION WHERE THE US IS IN A STRONG POSITION, IE, JUDICIAL AND ADMINISTRATIVE REVIEW PROCEDURES, PUBLICATION OF LAWS AND REGULATIONS, AND PRECISE AND FAIR HANDLING OF NON-ARMS LENGTH TRANSACTIONS.

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#### 5. POSSIBLE ADDITIONAL NTMS:



DURING THE FIRST WEEK IN DECEMBER THE NTM GROUP DISCUSSED, BUT DID NOT AGREE UPON, ESTABLISHING OTHER SUBGROUPS FOR ADDITIONAL NTMS IN THE NEGOTIATIONS. A NUMBER OF COUNTRIES BELIEVED THAT FURTHER PROGRESS SHOULD BE MADE ON THOSE MEASURES ALREADY UNDER CONSIDERATION BEFORE NEW SUBGROUPS ARE ESTABLISHED. THIS DOES NOT PRECLUDE ADDITIONAL SUBGROUPS BEING SET UP LATER, OR SEPARATE NEGOTIATIONS BEING HELD ON MEASURES NOT DEALT WITH IN MULTILATERAL GROUPS. AT ITS NEXT MEETING IN EARLY SPRING, THE NTM GROUP WILL REVERT TO THE QUESTION OF A SECOND LIST OF MEASURES WHICH MIGHT BE NEGOTIATED UPON.

THE US, SUPPORTED BY AUSTRALIA, NEW ZEALAND, AND MEXICO, URGED ESTABLISHMENT OF A SUBGROUP TO CONSIDER VARIABLE LEVIES AND MINIMUM IMPORT PRICES. THE EC, SUPPORTED BY THE NORDIC COUNTRIES AND SPAIN, OPPOSED ON THE GROUND THAT THESE MEASURES FALL WITHIN THE COMPETENCE OF THE AGRICULTURE GROUP. CANADA PRESSED TO HAVE ANTIDUMPING ADDED TO THE LIST OF NTMS TO BE CONSIDERED; SEVERAL PARTICIPANTS AGREED WITH THE US THAT A SEPARATE SUBGROUP IS UNNECESSARY AT THIS TIME SINCE THE GATT ANTIDUMPING COMMITTEE IS ALREADY CONSIDERING OPERATION OF THE PRESENT ANTIDUMPING CODE AND IS PREPARED TO CONSIDER THE NEED FOR POSSIBLE MODIFICATIONS TO THE CODE. THE COMMITTEE HAS AGREED THAT SHOULD MODIFICATIONS BE DISCUSSED, SUCH DISCUSSIONS WILL BE OPEN TO NON-SIGNATORIES. THUS, THE POSSIBILITY IS HELD OPEN FOR A MODIFIED CODE TO BE CONSIDERED WITHIN THE MTN.

INDIA, SUPPORTED BY CERTAIN OTHER DEVELOPING COUNTRIES, PROPOSED A SUBGROUP ON GOVERNMENT PROCUREMENT. WHILE THIS PROPOSAL RECEIVED SOME SUPPORT, THE FORMATION OF SUCH A SUBGROUP WAS CONSIDERED PREMATURE. WE NOTED THAT GOVERNMENT PROCUREMENT SHOULD BE TAKEN UP IN THE MTN AT AN APPROPRIATE TIME. WE ARE INTERESTED IN REACHING AGREEMENT ON A GOVERNMENT PROCUREMENT CODE IN THE MTN SINCE ONLY IN THAT WAY WILL ACCESSION BE CONSIDERED BY LIMITED OFFICIAL USE

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THE WIDEST SPECTRUM OF GOVERNMENTS. WE BELIEVE THAT IT IS PREFERABLE FOR THE TIME BEING TO WORK OUT THE MAJOR ELEMENTS OF A CODE WITHIN THE OECD, WHERE WORK ON A DRAFT CODE IS UNDERWAY. MTN DISCUSSIONS WILL BE MOST USEFUL WHEN THE MAJOR PROCURING NATIONS HAVE BEEN ABLE TO RESOLVE CRUCIAL ISSUES ON WHICH A CODE MUST BE BASED. THE OECD EFFORT IS AN OUTGROWTH OF EARLIER DISCUSSIONS IN THAT BODY WHICH SHOWED THAT GOVERNMENT MARKETS ARE BEING FORECLOSED TO FOREIGN SUPPLIERS AND THAT PROCUREMENT SYSTEMS ARE NOT BEING USED BY GOVERNMENTS

TO OBTAIN THE BEST VALUE FOR FUNDS EXPENDED. EFFORTS TO RESOLVE OUTSTANDING CODE ISSUES MOVED SLOWLY IN THE OECD TRADE COMMITTEE WORKING PARTY DURING 1975 EVEN THOUGH PROGRESS WAS ACHIEVED IN REACHING AGREEMENT ON SOME ELEMENTS OF A CODE AND IN NARROWING DIFFERENCES ON OTHERS. CERTAIN COUNTRIES EXPRESSED A READINESS FOR THE FIRST TIME TO ENGAGE IN NEGOTIATIONS ON A DRAFT GOVERNMENT PROCUREMENT INSTRUMENT.

#### C. TROPICAL PRODUCTS

(1) DURING 1975, NEGOTIATIONS ON TROPICAL PRODUCTS DEVELOPED THE MOST RAPID MOMENTUM OF ALL NEGOTIATIONS IN THE MTN. MAJOR TRADING NATIONS RECOGNIZED THAT SECURING CONTINUED LDC INVOLVEMENT IN ALL ASPECTS OF THE MTN WOULD REQUIRE AN EARLY FOCUS ON NEGOTIATIONS REGARDING PRODUCTS OF SPECIAL INTEREST TO LDCS. THE TROPICAL PRODUCTS GROUP BECAME THE OBVIOUS AREA FOR GIVING SUBSTANTIVE DEFINITION TO THE TOKYO DECLARATION PLEDGE OF SPECIAL AND PRIORITY TREATMENT FOR LDC PARTICIPATION IN THE MTN. IN THE TROPICAL PRODUCTS GROUP, THE LDCS SUBMITTED THEIR REQUESTS FOR TRADE BARRIERS REDUCTIONS FROM THE DEVELOPED COUNTRIES ON A NUMBER OF PRODUCTS. SOME 33 LDCS HAVE NOW REQUESTED THE US SPECIFICALLY TO REDUCE TRADE BARRIERS ON PRODUCTS IN APPROXIMATELY 650 TSUS ITEMS, INCLUDING REQUESTS FOR TARIFF REDUCTIONS ON 550 ITEMS. AT THE LAST TROPICAL PRODUCTS MEETING IN OCTOBER 1975, WE AND OTHER DEVELOPED COUNTRIES AGREED TO TABLE INITIAL OFFERS ON MARCH 1, 1976 (SUBJECT TO COMPLETION OF DOMESTIC PROCEDURES REQUIRED BY THE TRADE ACT) TO RESPOND TO LDC REQUESTS. LIMITED OFFICIAL USE

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(2) WE ARE NOW ENGAGED IN INTERAGENCY MEETINGS AND PRIVATE SECTOR AND CONGRESSIONAL CONSULTATIONS TO DEVELOP OUR OFFER LIST. OUR OFFER WILL PROBABLY ONLY INCLUDE

TARIFF CONCESSIONS. ALTHOUGH WE WILL CONSULT ON NON-TARIFF MEASURES, SOLUTIONS WILL PROBABLY HAVE TO BE DEVELOPED IN THE NON-TARIFF MEASURES GROUPS NEGOTIATING THESE ISSUES. WE ARE ALSO SEEKING TO IDENTIFY APPROPRIATE AND SUFFICIENT CONCESSIONS TO REQUEST OF THOSE COUNTRIES WHICH WOULD BENEFIT FROM CONCESSIONS WE MIGHT MAKE.

#### D. SPECIAL TREATMENT FOR LDCS

(1) DEVELOPED COUNTRIES AGREED IN THE TOKYO DECLARATION TO ACCORD LDCS SPECIAL TREATMENT IN THOSE AREAS OF THE NEGOTIATION WHERE SUCH AN APPROACH WOULD BE FEASIBLE AND

APPROPRIATE. SPECIAL TREATMENT CAN BE CATEGORIZED AS (1) SPECIAL NEGOTIATING PROCEDURES OR EMPHASIS IN THE NEGOTIATIONS (E.G., EXEMPTION FOR LDCS FROM APPLYING THE TARIFF FORMULA, OR PRIORITY NEGOTIATIONS ON TROPICAL PRODUCTS) AND (2) DIFFERENTIAL MEASURES FOR LDCS IN THE OPERATION OF THE WORLD TRADING SYSTEM RESULTING FROM THE TRADE NEGOTIATIONS. THE FIRST ARE VIEWED AS INCENTIVES TO FACILITATE MEANINGFUL LDC PARTICIPATION IN THE OVERALL NEGOTIATIONS; THE LATTER ARE A MEANS FOR INTEGRATING LDCS GRADUALLY BUT PERMANENTLY INTO THE FABRIC OF A REFORMED WORLD TRADING SYSTEM INVOLVING STABLE ARRANGEMENTS AND RECIPROCAL OBLIGATIONS. OF COURSE, ANY SPECIAL TREATMENT WOULD HAVE TO BE PHASED OUT GRADUALLY ACCORDING TO SOME CRITERIA, SUCH AS LEVEL OF DEVELOPMENT, IN LINE WITH THE GENERAL CONCEPTS WHICH THE SECRETARY MENTIONED ON THIS SUBJECT IN HIS STATEMENT TO THE UN SEVENTH SPECIAL SESSION. OUR OBJECTIVE WITH DEVELOPING COUNTRIES IS TO HAVE A FULL PARTICIPATION IN THE WORLD TRADING SYSTEM. WE WILL CONSIDER SPECIAL AND DIFFERENTIAL TREATMENT TIED TO THE ATTAINMENT OF SPECIFIC DEVELOPMENT OBJECTIVES. SUCH TREATMENT, HOWEVER, CANNOT BE OF SUCH MAGNITUDE AS TO ALLOW INJURY TO US PRODUCERS. FINALLY, WE EXPECT CONTRIBUTIONS FROM DEVELOPING COUNTRIES WHICH WILL ASSURE THEIR ACCEPTANCE LIMITED OFFICIAL USE

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OF OBLIGATIONS CONSISTENT WITH THEIR FINANCIAL AND DEVELOPMENT NEEDS. SUCH CONTRIBUTIONS SHOULD PROVIDE INCREASED ACCESS FOR US EXPORTS.

(2) IN THAT STATEMENT, SECRETARY KISSINGER ALSO EMPHASIZED THE US COMMITMENT TO SEEKING AGREEMENT ON SPECIAL TREATMENT FOR DEVELOPING COUNTRIES IN THE TRADING SYSTEM. ALTHOUGH THE LDCS HAVE MADE VARIOUS PROPOSALS DURING 1975, MANY HAVE NOT AS YET BEEN DISCUSSED IN DETAIL IN THE MTN GROUPS. SOME HAVE LACKED SPECIFICITY AND/OR PRACTICALITY; OTHERS HAVE PRECEDED THE CONSIDERATION OF NEW RULES AND ARE PREMATURE FOR RESPONSE.

(3) IN THE TARIFF NEGOTIATIONS, THE US HAS PROPOSED A CROSS-NOTIFICATION PROCEDURE BETWEEN DCS AND LDCS SO THEY COULD INDICATE TO ONE ANOTHER PRODUCTS ON WHICH THEY ARE STRONGLY INTERESTED IN TARIFF REDUCTIONS. IN PARTICULAR, SUCH A PROCEDURE WOULD ENABLE LDCS TO INDICATE THOSE PRODUCTS OF EXPORT INTEREST TO THEM WHICH THEY VIEW AS BEING SIGNIFICANTLY AFFECTED BY TARIFF ESCALATION. THE US EXPECTS DISCUSSION OF THIS PROPOSAL TO BE PURSUED AT THE NEXT TARIFF GROUP MEETING IN MARCH.

(4) WE ARE ALSO EXAMINING OTHER AREAS IN THE MTN WHERE SPECIAL TREATMENT FOR LDCS MIGHT BE FEASIBLE AND APPROPRIATE. IN SEPTEMBER WE REQUESTED A DISCUSSION OF SPECIAL TREATMENT IN THE OECD TRADE COMMITTEE WITH A VIEW TO DEVELOPING AN INITIAL CONSENSUS AMONG DEVELOPED COUNTRIES. SUCH A CONSENSUS WOULD FACILITATE THE ELABORATION OF CONCRETE PROPOSALS WITHIN THE MTN FOR DIFFERENTIAL MEASURES IN PARALLEL WITH THE NEGOTIATION OF RULES WHICH WOULD NORMALLY GOVERN THE APPLICATION OF NON-TARIFF MEASURES AND SAFEGUARDS. A MEETING IN NOVEMBER OF THE OECD TRADE COMMITTEE WORKING PARTY DISCUSSED AN OECD SECRETARIAT PAPER ON THE MATTER WHICH HAS BEEN REVISED IN THE LIGHT OF THE WORKING PARTY DISCUSSION AND WILL BE CONSIDERED AT THE NEXT TRADE COMMITTEE MEETING, TENTATIVELY SCHEDULED FOR EARLY FEBRUARY. THE OECD PAPER STRESSES THE IMPORTANCE OF DEVELOPING INTERIM ARRANGEMENTS TO HELP LDCS IMPROVE LIMITED OFFICIAL USE

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THEIR COMPETITIVENESS AND PARTICIPATE MORE FULLY IN INTERNATIONAL TRADE. THE AIM IS TO INCLUDE THEM PROGRESSIVELY IN THE GENERAL WORLD TRADING SYSTEM AND NOT TO PERPETUATE A SCHEME OF EXCEPTIONS. DIFFERENTIAL MEASURES SHOULD BE BACKED UP WITH ENCOURAGEMENTS TO LDCS TO BECOME PART OF THE GENERAL SYSTEM WHENEVER THEIR ECONOMIC POSITIONS PERMIT.

#### E. AGRICULTURE

(1) THE MOST IMPORTANT ASPECT OF THE NEGOTIATIONS ON TRADE IN AGRICULTURAL PRODUCTS HAS BEEN THE CONTINUING DIFFERENCE BETWEEN THE UNITED STATES (GENERALLY SUPPORTED BY CANADA, AUSTRALIA, AND NEW ZEALAND) AND THE EC (GENERALLY SUPPORTED BY JAPAN AND THE NXD.ICS) S - HOW-THE NEGOTIATIONS SHOULD BE CONDUCTED. THIS CONFLICT IS BASED IN A FUNDAMENTAL DIVERGENCE OF INTERESTS BETWEEN THE US AND THE EC WHICH PERSISTED THROUGH THE DECEMBER TNC AND WILL CONTINUE TO HAVE THE POTENTIAL FOR AFFECTING THE OVERALL OUTCOME OF THE MTN.

THE EC BELIEVES THAT ITS COMMON AGRICULTURAL POLICY AND THE CAP'S MECHANISMS ARE ESSENTIAL TO DOMESTIC SOCIAL ORDER IN THE SHORT RUN, AND TO A UNITED EUROPE IN THE LONGER RUN; THE EC THUS SEEKS TO INSULATE THE CAP FROM BEING UNDERMINED BY MORE COMPETITIVE FARM PRODUCTS FROM THE US AND ELSEWHERE. THE US, WHOSE AGRICULTURAL EXPORTS ARE AN ESSENTIAL ELEMENT IN ITS CURRENT FAVORABLE TRADE BALANCE, SEEKS TO GAIN IMPROVED ACCESS TO EUROPEAN AGRICULTURAL MARKETS WHICH ARE NOW PARTLY BARRED TO US EXPORTERS THROUGH THE EC'S VARIABLE LEVIES, MINIMUM

IMPORT PRICES, AND OTHER MEASURES. SUCH MEASURES ALSO UNDERCUT US EXPORTERS IN THIRD COUNTRIES THROUGH EXPORT SUBSIDIES, WHICH THE EC USES TO FACILITATE THE DISPOSAL OF THE SURPLUSES ITS PRODUCTION INCENTIVES CREATE. DOMESTIC PRESSURES ON BOTH THE EC GOVERNMENTS (TO PROTECT FARMERS FROM IMPORT COMPETITION) AND THE US (TO PROTECT FOREIGN MARKETS FOR OUR FARM PRODUCTS) ARE PREDICTABLY INTENSE.

(2) THE UNITED STATES SEEKS TO NEGOTIATE AGRICULTURE AND LIMITED OFFICIAL USE

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INDUSTRY JOINTLY WHEREAS THE EC SEEKS TO ISOLATE AGRICULTURE. OUR VIEW HAS REMAINED THAT THE MTN IS A TOTAL NEGOTIATING PROCESS WHERE THERE MUST BE EFFECTIVE LINKAGE BETWEEN GROUP AGRICULTURE AND OTHER MTN NEGOTIATING GROUPS CHARGED WITH EXAMINING FUNCTIONAL TRADE RESTRICTIVE PRACTICES (SUCH AS TARIFFS, QUANTITATIVE RESTRICTIONS AND EXPORT SUBSIDIES) WHICH DIRECTLY RELATE TO AND INHIBIT WORLD TRADE IN AGRICULTURE. MUCH OF 1975 HAS THUS BEEN OCCUPIED WITH WORKING OUT AND THEN TRYING TO ADHERE TO PROCEDURAL COMPROMISES IN GROUP AGRICULTURE WHICH WOULD ALLOW WORK TO PROCEED IN THAT GROUP IN CONJUNCTION WITH OTHER ELEMENTS OF THE MTN. THESE EFFORTS HAVE RUN INTO TROUBLE ON VIRTUALLY EVERY OCCASION GROUP AGRICULTURE HAS MET.

(3) IN MAY, WE AGREED WITH THE EC THAT THE GROUP COULD TAKE UP THE "AGRICULTURAL ASPECTS" OF "MATTERS OF A GLOBAL NATURE," PROVIDED THAT THEY BE TREATED "IN CONJUNCTION WITH THE WORK OF THE 'TARIFFS' AND 'NON-TARIFF MEASURES' GROUPS," AND THAT THE "RESULTS OF THIS WORK WILL BE COMMUNICATED TO OTHER GROUPS CONCERNED ..." HOWEVER, SINCE MAY, THE EC AND THE US HAVE BEEN UNABLE TO AGREE ON MECHANISMS TO IMPLEMENT THE CLAUSES "IN CONJUNCTION WITH" AND "BE COMMUNICATED TO OTHER GROUPS." FACED WITH A CONTINUING IMPASSE, AND THE POSSIBILITY THAT ITS FORMAL AIRING AT THE TNC COULD COMPLETELY DERAIL NOT ONLY OUR PROPOSED WORK PROGRAM BUT THE ENTIRE MTN, BOTH SIDES ENGAGED IN INTENSIVE BILATERALS WELL INTO THE TNC ITSELF. AN ARRANGEMENT WAS FINALLY AGREED WHICH ACKNOWLEDGED THE CONTINUATION OF US-EC DIFFERENCES, BUT PERMITTED APPROVAL ON DECEMBER 16 BY GROUP AGRICULTURE OF A WORK PROGRAM FOR PRODUCTS IN ADDITION TO DAIRY, MEAT, AND GRAINS.

(4) DESPITE THE DIFFICULTIES MENTIONED ABOVE, WHICH BOTH THE US AND THE EC ACKNOWLEDGE MUST BE RESOLVED, SOME WORK ON AGRICULTURAL TRADE HAS TAKEN PLACE. IN MAY, THE AGRICULTURE GROUP ESTABLISHED THREE SUB-GROUPS

(GRAINS, DAIRY PRODUCTS, AND MEAT), WHICH HAVE HELD PRELIMINARY DISCUSSIONS ON PROBLEMS OF TRADE IN THOSE PRODUCTS. IN DECEMBER, THE AGRICULTURE GROUP AGREED TO LIMITED OFFICIAL USE

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SPONSOR BILATERAL AND PLURILATERAL CONSULTATIONS, BASED ON NOTIFICATIONS TO THE GATT SECRETARIAT, ON PROBLEMS IN THE TRADE OF OTHER AGRICULTURAL PRODUCTS, WITH PRIORITY ATTENTION GIVEN TO LDC TRADE PROBLEMS. UNDER THE AUSPICES OF THE NON-TARIFF MEASURES (NTM) GROUP, THE US HAS HELD CONSULTATIONS ON IMPORT QUOTAS, LICENSING SYSTEMS, AND OTHER QUANTITATIVE RESTRICTIONS, INCLUDING THOSE AFFECTING AGRICULTURAL TRADE, WITH A NUMBER OF COUNTRIES.

#### F. SAFEGUARDS

(1) WHILE THERE IS SUBSTANTIAL BUT NOT UNANIMOUS ACCEPTANCE OF THE NEED TO DEVELOP MORE EFFECTIVE MULTILATERAL ARRANGEMENTS THAN CURRENTLY PROVIDED BY GATT ARTICLE XIX TO PERMIT COUNTRIES TO TAKE TEMPORARY RELIEF ACTION AGAINST INCREASED IMPORTS WHICH THREATEN SERIOUS INJURY TO A DOMESTIC INDUSTRY, THERE HAS BEEN NO CONSENSUS ON HOW SUCH ARRANGEMENTS WOULD BE NEGOTIATED OR INSTITUTIONALIZED. THE SAFEGUARDS GROUP HAS THUS SPENT MOST OF 1975 REVIEWING THE BASIC OPTIONS AND ISSUES INVOLVED IN DEVELOPING A NEW MECHANISM. AT THE GROUP'S NEXT MEETING IN APRIL, DELEGATIONS WILL BE CALLED ON TO TABLE SPECIFIC PROPOSALS ON THE SHAPE AND OPERATING CHARACTERISTICS OF A NEW SAFEGUARD MECHANISM FOR GENERAL CONSIDERATION. BY SUMMER OF 1976 DELEGATIONS SHOULD THEN BE IN A POSITION TO BEGIN RESOLVING EXISTING DIVERGENT VIEWS AND MOVE TOWARD THE SHAPING OF A DRAFT SAFEGUARDS CODE. THE US INTENDS TO TABLE ITS PROPOSAL FOLLOWING THE APRIL MEETING (PROBABLY EARLY JUNE OR JULY) AND WORK IS NOW UNDERWAY IN WASHINGTON TO THAT END. HOWEVER, WE DID NOT CONDUCT CONSULTATIONS WITH THE EC, NORDICS AND JAPAN PRIOR TO RESOLUTION OF THE AGRICULTURAL IMPASSE. THEY WOULD NOT AGREE TO CONSULT ABOUT AGRICULTURAL QRS WITHIN THE FRAMEWORK OF THE NTM GROUP.

(2) THE MAJOR PROBLEM TO BE SOLVED AT THE OUTSET WILL BE THE SCOPE OF ANY NEW SAFEGUARD MECHANISM. THE US POSITION CAN BE EXPECTED TO EMBRACE ALL ACTIONS TAKEN BY COUNTRIES TO RESOLVE SAFEGUARD SITUATIONS. OTHER LIMITED OFFICIAL USE

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COUNTRIES (E.G., THE EC AND JAPAN) GIVE A NARROWER FOCUS TO THIS WORK. THUS, FINAL WORK IN THE SAFEGUARDS AREA MAY WELL BE DELAYED TOWARD THE LATTER PART OF THE NEGOTIATIONS. WHILE THE US TENDS TO VIEW EARLY COMPLETION OF THE SAFEGUARDS EXERCISE AS A USEFUL TOOL TO BUILD CONFIDENCE THAT UNEXPECTED RESULTS OF CONCESSIONS MADE LATER IN OTHER MTN AREAS CAN BE ADEQUATELY DEALT WITH, MANY DELEGATIONS TAKE THE VIEW THAT PRECISION IN THE SAFEGUARD AREA CAN ONLY BE ACHIEVED FOLLOWING MORE DEFINITION OF THE OVERALL RESULTS LIKELY TO RESULT FROM THE MTN.

#### G. SECTORS

(1) US STRATEGY IN THIS AREA OF THE NEGOTIATIONS HAS BEEN TO SEEK DEVELOPMENT BY THE GATT SECRETARIAT OF ADEQUATE BACKGROUND DATA FOR SECTOR NEGOTIATIONS TO FACILITATE PROGRESS AT SOME LATER STAGE IF THIS APPROACH WOULD BE MORE APPROPRIATE FOR MAXIMIZING TRADE LIBERALIZATION IN SPECIFIC INDUSTRIAL SECTORS. WE THUS SOUGHT IN 1975 TO INSURE THAT THE FIVE SECTORS MENTIONED IN THE SENATE FINANCE COMMITTEE'S REPORT ON THE TRADE ACT (STEEL, ALUMINUM, CHEMICALS, ELECTRONICS, HEAVY ELECTRICAL EQUIPMENT) WERE INCLUDED IN ANY WORK DONE IN THIS AREA. THE RESULT IS A FAIRLY COMPREHENSIVE COMPILATION OF DATA ON ORES AND METALS DEVELOPED BY THE GATT SECRETARIAT TOGETHER WITH AN INITIAL COMPILATION OF TRADE AND PRODUCTION DATA ON ALL INDUSTRIAL SECTORS IN THE GATT TARIFF STUDY.

(2) THE OBJECTIVE OF KEEPING THE SECTORS ISSUE ALIVE WITHOUT FORCING IT OUT AHEAD OF SOME BASIC AGREEMENTS ON THE TARIFF PLAN AND CERTAIN NTM'S HAS NOT BEEN ACHIEVED WITHOUT CONSIDERABLE RESISTANCE FROM SOME KEY DELEGATIONS, MOST NOTABLY THE EC AND JAPAN. BOTH HAVE BEEN FEARFUL THAT WE WERE MOTIVATED BY A DESIRE EITHER TO FRAGMENT THE NEGOTIATIONS OR TO GIVE VENT TO PROTECTIONIST PRESSURES BY RELEGATING MOST OF THE IMPORTANT INDUSTRIAL PRODUCTS TO SECTORAL NEGOTIATIONS, WHERE MORE LIMITED RESULTS MIGHT BE CONTEMPLATED. WHILE WE ARE AWARE THAT SECTORAL NEGOTIATIONS MIGHT TEND LIMITED OFFICIAL USE

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TO LIMIT THE OVERALL RESULTS OF THE MTN -- ESPECIALLY IF INITIATED PREMATURELY-- WE ALSO RECOGNIZE THAT THEY COULD BE MOST USEFUL IN KEY INDUSTRIES WHERE WE MIGHT ACHIEVE EVEN GREATER LIBERALIZATION THAN IN THE GENERAL TARIFF AND NON-TARIFF NEGOTIATIONS. THIS IS

BECAUSE ALL OF THE PROBLEMS OF A SECTOR CAN BE DISCUSSED CONCURRENTLY, AND EFFECTS OF CHANGES IN ONE COUNTRY'S PRACTICES OR CHANGES IN VARYING PRODUCT LINES CAN BE BETTER EVALUATED IN TERMS OF THEIR IMPACT ON THE OTHERS.

(3) IN THE COMING MONTHS WE WILL PROBABLY SEEK TO HAVE THE SECRETARIAT GATHER AS MUCH CURRENT TRADE RELATED INFORMATION AS POSSIBLE ON KEY INDUSTRIES. ONCE A TARIFF FORMULA OR TARIFF PLAN IS AGREED UPON, WE WILL THEN BE IN A BETTER POSITION TO EVALUATE THE ADVANTAGES OF THE SECTORAL APPROACH.

#### H. ACCESS TO SUPPLIES

(1) WITH THE HARDSHIP INFLICTED BY OPEC ON THE ECONOMIES OF THE US AND OTHER COUNTRIES VERY MUCH IN MIND, THE FRAMERS OF THE TRADE ACT OF 1974 PROVIDED THAT "A PRINCIPAL UNITED STATES NEGOTIATING OBJECTIVE SHALL BE ...EQUITABLE ACCESS AT REASONABLE PRICES TO SUPPLIES OF COMMERCE WITH ARE IMPORTANT TO ... THE UNITED STATES AND FOR WHICH THE UNITED STATES DOES NOT HAVE, OR CANNOT EASILY DEVELOP, THE ... CAPACITY TO SUPPLY ITS OWN REQUIREMENTS." IN PURSUIT OF THIS OBJECTIVE, THE PRESIDENT IS AUTHORIZED TO GRANT RECIPROCAL SUPPLY ACCESS CONCESSIONS OR OTHER COMPARABLE CONCESSIONS.

(2) THE US, WHILE FAR LESS VULNERABLE TO INTERRUPTIONS IN NEEDED SUPPLIES THAN JAPAN AND EUROPE, SEEKS TO INSULATE THE AMERICAN AND OTHER INDUSTRIAL ECONOMIES FROM SHOCKS DUE TO DISRUPTIONS IN THE FLOW OF SUPPLIES. UNLIKE EUROPE AND JAPAN, THE US SUPPLIES MANY OF THE RAW MATERIALS (OTHER THAN OIL) OUR ECONOMY NEEDS, AND WE ARE ALSO A MAJOR EXPORTER OF RAW MATERIALS. MOST OF THE MINERALS WHICH WE IMPORT COME FROM DEVELOPED COUNTRIES (HALF COME FROM CANADA). THESE DEVELOPED COUNTRY SUPPLIERS HAVE BEEN VERY WARY OF TAKING UP "SUPPLY ACCESS" IN THE MTN, BELIEVING THAT THEIR RAW MATERIALS GIVE LIMITED OFFICIAL USE

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THEM IMPORTANT BARGAINING LEVERAGE, AND HOPING THAT THE MTN RESULTS WILL MAKE IT PROFITABLE TO EXPORT PROCESSED, RATHER THAN RAW, FORMS OF THEIR NATURAL RESOURCES. LDC SUPPLIERS HAVE ALSO BEEN UNENTHUSIASTIC ABOUT DISCUSSING ASSURANCES OF ACCESS TO THE SUPPLIES THEY EXPORT.

(3) GIVEN THE UNIQUE POSITION OF THE US AND THE EARLY REACTIONS OF OTHER COUNTRIES, OUR INITIAL STRATEGY HAS BEEN TO-FOREGO THE-ESTABLISHMENT OF A SUPPLY ACCESS GROUP, AT LEAST FOR THE PRESENT, AND ALLOW SUPPLY QUESTIONS TO BE RAISED IN SEVERAL OF THE EXISTING MTN GROUPS. AS A PRELIMINARY STEP TOWARD NEGOTIATING SUPPLY



ACCESS IN THE MTN, WE ARE PREPARING TO NOTIFY TO THE GATT, FOR INCLUSION IN THE GATT INVENTORY OF NON-TARIFF BARRIERS, A NUMBER OF EXPORT RESTRICTIONS OF OTHER COUNTRIES. THE EC HAS INFORMED US THAT IT WILL DO LIKEWISE.

(4) AS THE MTN PROCEEDS, THE US WILL CONSIDER REQUESTING SUPPLY ACCESS COMMITMENTS FROM OTHER COUNTRIES IN RETURN FOR LOWER TARIFFS ON PROCESSED GOODS OR OTHER CONCESSIONS OF INTEREST TO OUR SUPPLIERS. WE, IN TURN, MIGHT RESPOND TO REQUESTS FOR SOME FORM OF COMMITMENT ON OUR PART NOT TO IMPOSE EXPORT CONTROLS ON GOODS NEEDED BY THE OTHER COUNTRY. THERE HAS BEEN A GREAT DEAL OF INTERNATIONAL DISCUSSION OF THE DESIRABILITY OF A GENERAL CODE ON EXPORT CONTROLS. SUCH A CODE WOULD NOT BE DESIGNED TO PREVENT EXPORT RESTRICTIONS, BUT RATHER TO ENSURE THAT WHEN COUNTRIES DO RESORT TO EXPORT CONTROLS, THEY DO SO WITH PREDICTABILITY AND FAIRNESS. IT MIGHT ALSO PROVIDE THE FRAMEWORK WITHIN WHICH SPECIFIC SUPPLY ACCESS COMMITMENTS MIGHT BE MADE. PRELIMINARY WORK ON THE FEASIBILITY AND CHARACTERISTICS OF SUCH A CODE IS UNDERWAY IN THE USG.

#### 4. FRAMEWORK IMPROVEMENT.

(1) AN OBJECTIVE FOR THE MTN SET FORTH IN THE TOKYO DECLARATION IS IMPROVEMENT OF THE FRAMEWORK FOR THE CONDUCT OF WORLD TRADE. THIS ISSUE IS OF PARTICULAR CONCERN TO CONGRESS AND, UNDER SECTION 121 OF THE TRADE ACT, THE PRESIDENT HAS BEEN DIRECTED TO NEGOTIATE AGREEMENTS LIMITED OFFICIAL USE

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ON SPECIFIC GATT REFORM ISSUES.

(2) ON SEVERAL OCCASIONS THE US HAS AFFIRMED ITS COMMITMENT TO FRAMEWORK IMPROVEMENT EFFORTS IN THE MTN. HOWEVER, US POLICY HAS BEEN TO REALIZE SUCH OBJECTIVES BY DEALING WITH VARIOUS GATT REFORM ISSUES IN DIFFERENT NEGOTIATING CONTEXTS RATHER THAN BY TRYING TO APPROACH THE ISSUE AS A WHOLE IN ONE GATT REFORM GROUP. IN A VERY REAL SENSE, MUCH OF THE SUBSTANTIVE NEGOTIATION UNDER WAY IN THE MTN DEALS WITH GATT REFORM ISSUES. NEGOTIATIONS ON SUBSIDIES, SAFEGUARDS, AND SUPPLY ACCESS ARE ALL SPECIFICALLY CITED UNDER SECTION 121 OF THE TRADE ACT AS AREAS OF US GATT REFORM EFFORTS. OTHER ISSUES MENTIONED IN SECTION 121 - IN PARTICULAR PROVISIONS FOR DECISION MAKING AND DISPUTE SETTLEMENT - WILL ALSO ARISE IN THE CONTEXT OF NTM CODES BEING NEGOTIATED IN THE MTN.

(3) WHILE MOST OF THE REFORM ISSUES LISTED UNDER SECTION

121 CAN BE RAISED IN EXISTING NEGOTIATING GROUPS, THREE PRESENT DIFFICULTIES IN THIS REGARD. REFORM OF GATT RULES AND PROCEDURES GOVERNING TRADE ACTIONS FOR BALANCE OF PAYMENTS PURPOSES IS NOT DIRECTLY RELATED TO ANY OF THE ISSUES CURRENTLY UNDER NEGOTIATION. THE ISSUE HAS, HOWEVER, BEEN RAISED IN THE GATT CONSULTATIVE GROUP OF 18 (A GROUP OF POLICY LEVEL OFFICIALS WHICH MEETS REGULARLY TO CONSULT ON TRADE ISSUES UNDER THE GATT). IN FEBRUARY, THE US WILL PRESENT A PAPER ON BALANCE OF PAYMENTS RULES TO THE GROUP OF 18. REVIEW OF GATT RULES ON BORDER TAX ADJUSTMENTS ALSO PRESENT DIFFICULTIES. IT COULD BE RAISED IN THE CONTEXT OF NEGOTIATIONS ON SUBSIDY/ COUNTERVAILING DUTIES BUT THIS WOULD INTRODUCE A CONTENTIOUS ISSUE INTO NEGOTIATIONS WHICH ARE ALREADY DIFFICULT. TO DATE THE US HAS NOTED ONLY THAT THE BORDER TAX ISSUE MUST BE DEALT WITH IN THE MTN. FAIR LABOR STANDARDS IS ANOTHER REFORM ISSUE WHICH DOES NOT FIT NICELY INTO EXISTING NEGOTIATING FORA.

(4) TO DATE THE UNITED STATES APPROACH OF DEALING WITH GATT REFORM ISSUES AS THEY ARISE IN VARIOUS NEGOTIATING CONTEXTS HAS PREVAILED. HOWEVER, AT THE DECEMBER TNC LIMITED OFFICIAL USE

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THE BRAZILIAN DELEGATION PROPOSED THAT THERE BE CREATED A GATT REFORM GROUP WHICH WOULD FOCUS UPON THE APPLICATION OF GATT RULES TO DEVELOPING COUNTRIES. THE BRAZILIAN PROPOSAL WILL BE TAKEN UP AT THE JULY TNC. WHILE THE US HAS DISCUSSED THIS PROPOSAL WITH THE BRAZILIANS AND IN A MEETING OF THE SEVEN PLUS SEVEN (AN INFORMAL MTN AD HOC STEERING GROUP), NO FORMAL US POSITION HAS BEEN GIVEN. HOWEVER THE US HAS RAISED CERTAIN QUESTIONS ON THE SCOPE OF THE BRAZILIAN PROPOSAL AND, IN PARTICULAR, WHETHER THE ISSUES RAISED WOULD NOT BE MORE APPROPRIATELY HANDLED IN THE CONSULTATIVE GROUP OF 18. THE US IS CONCERNED THAT CREATION OF A GATT REFORM GROUP OF THIS TYPE WOULD DO LITTLE MORE THAN PROMOTE DC/LDC CONFRONTATION IN THE MTN.

## 5. CONCLUSIONS

(A) ACTIVITY THROUGHOUT THE MTN WILL NOW BE INFLUENCED, AND HOPEFULLY ACCELERATED BY TNC ACCEPTANCE OF 1977 AS THE DEADLINE FOR COMPLETING THE NEGOTIATIONS. OUR ABILITY TO SECURE THE OBJECTIVES SET FORTH IN THE TNC CHAIRMAN'S SUMMING-UP STATEMENT, HOWEVER, WILL BE DEPENDENT ON SATISFYING TWO KEY REQUIREMENTS:

--THAT THE US AND THE EC CAN AGREE ON AN OVERALL APPROACH TO THE NEGOTIATIONS FOR 1976, THE SCOPE OF SUCH

AGREEMENT INFLUENCING THE EXTENT OF ACTUAL ACCOMPLISHMENTS,  
BUT WITHOUT WHICH LITTLE OF MAJOR SUBSTANCE CAN BE  
ACHIEVED IN THE MTN.

--THAT THE MTN CAN PRODUCE TANGIBLE AND EARLY RESULTS  
FOR THE LDCS, AS A MEANS TO GUARANTEE THEIR FULL AND  
CONTINUING INVOLVEMENT IN ALL ASPECTS OF THE NEGOTIATIONS,  
AND WITHOUT WHICH WE EITHER RISK PRECIPITATING A SERIOUS  
NORTH/SOUTH CONFRONTATION WITHIN THE MTN, OR WORSE,  
A POSSIBLE LDC WITHDRAWAL FROM THE NEGOTIATIONS AS A WHOLE.

(B) GIVEN THE SATISFACTORY PACE OF WORK NOW UNDERWAY  
IN THE TROPICAL PRODUCTS GROUP, TOGETHER WITH OUR  
COMMITMENT TO CONSIDER SPECIAL TREATMENT FOR LDCS IN  
OTHER AREAS OF THE MTN, WE THINK OUR SECOND REQUIREMENT  
IS REASONABLY WELL IN HAND. SATISFYING THE FIRST REQUIRE-  
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MENT, HOWEVER, REQUIRES CAREFUL AND ONGOING MANAGEMENT  
OF OUR BILATERAL RELATIONSHIP WITH THE EC. WE HOPE TO  
AVOID FORMAL NEGOTIATING SESSIONS IN WHICH BOTH SIDES  
FIND THEMSELVES LOCKED INTO RIGID CONFLICT POSITIONS, AND  
WHERE OPEN CONFRONTATION HAS AN IMMEDIATE AND  
DEBILITATING EFFECT ON ALL ASPECTS OF THE MTN. WE  
PLAN, THEREFORE, TO ENGAGE THE EC IN A SERIES OF INFORMAL  
BILATERAL CONSULTATIONS IN WHICH WE WILL WORK TO RECONCILE  
OUR RESPECTIVE APPROACHES TO THE WORK PROGRAM FOR 1976.  
WE WILL ALSO USE THE INFORMAL BILATERAL APPROACH WITH  
OTHER KEY TRADING NATIONS, ESSENTIALLY FOR THE SAME  
PURPOSE.

(C) THE US/EC BILATERAL SCHEDULED FOR JANUARY 22  
IN BRUSSELS WAS AIMED AT ACHIEVING GENERAL AGREEMENT  
ON WHERE THE MTN SHOULD BE AT END 1976 AND HOW TO GET  
THERE. WHILE WE WILL CONTINUE TO SEARCH FOR MUTUALLY  
ACCEPTABLE SOLUTIONS TO THE AGRICULTURAL IMPASSE, OUR  
MAIN EFFORT WILL BE TO MOVE AHEAD THE WORK IN AS MANY  
NEGOTIATING AREAS AS POSSIBLE. AS NOTED EARLIER,  
WE WOULD HOPE THAT MOVEMENT IN THE TARIFF AREA WOULD  
WORK TO BRING ALONG OTHER ASPECTS OF THE NEGOTIATIONS.

(D) THE COMING MONTHS WILL THUS BE A PERIOD OF  
INTENSIVE INTERNAL PREPARATION WITHIN THE USG, CAREFULLY  
ORCHESTRATED BILATERAL CONSULTATIONS WITH KEY MTN  
PARTICIPANTS, AND ACTIVE US LEADERSHIP AT THE NEGOTIATING  
TABLE. TACTICALLY, WE MUST ALSO INSURE THAT THE PROCESS  
OF INFORMAL BILATERALS CONTRIBUTES TO THE RESOLUTION  
OF ISSUES IN FORMAL NEGOTIATING GROUPS, AND IS NOT  
INTERPRETED BY OTHERS AS A MEANS FOR "ORGANIZING" THE  
NEGOTIATIONS AT THEIR EXPENSE.

6. FOLLOW UP INFORMATION. POSTS' ATTENTION IS BROUGHT TO ARTICLES ON THE STATUS OF THE MTN WHICH REGULARLY APPEAR IN "COMMERCE AMERICA." THE E ARE SITLEEMENTED BY DEPARTMENT OF COMMERCE IN A PRINTOUT ENTITLED "MTN NEWS," WHICH IS SENT TO PARTICIPANTS IN THE PUBLIC ADVISORY BODIES ESTABLISHED UNDER THE TRADE ACT TO ADVISE THE ADMINISTRATION ON THE NEGOTIATIONS. ARRANGEMENTS ARE BEING MADE FOR THE POUCHING OF THE "MTN NEWS" TO ALL LIMITED OFFICIAL USE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TRADE, LESS DEVELOPED COUNTRIES, INDUSTRIALIZED NATIONS, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 FEB 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976STATE030417  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** BREDECKER:JVM  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760048-0136  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760271/aaaackjw.tel  
**Line Count:** 1048  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ORIGIN EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 20  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** morefirh  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 24 MAR 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <24 MAR 2004 by ElyME>; APPROVED <02 JUN 2004 by morefirh>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** MTN: THE STATE OF THE NEGOTIATIONS, JANUARY 1976 EMBASSIES PASS CONSTITUENT POSTS  
**TAGS:** ETRD, MTN  
**To:** ALL POSTS BELIZE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006